



Feb. 5 '99 10:07

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LINDA DAWSON

TEL:

Jan 28, 99 12:04 No. 002 P.02

Knight Bros.

•1999 B&W RAM II Presentation

2077369979

Prepared at the Request of Counsel
(RJ Reynolds Litigation)

P. 2



Dove & Williamson
TOBACCO

Background

- We are moving into an environment where prices will be significantly higher and communication opportunities fewer and far between**
 - 4 price increases in the last 12 months
 - Higher FET and anticipated settlement costs
- Competition is at an all time high across retail channels, with channel overlap, Category Killer emergence**
- Threat of restrictive manufacturer trade programs**

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12:04 No.002 P.03



New Retail Environment Projection

- **Tobacco will continue to be a highly profitable category**
- **Competition at every level will be keen**
- **In the case of manufacturers' and retailers, the winners will be those with the fastest feet and strongest commitment to the category**
- **Those that commit to the category will be able to grow their business and profit significantly at the expense of those who don't**

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Brown & Williamson

Trade Philosophy

Our trade philosophy can be summed up in one word:

“Inclusivity”

- We believe that it is in everyone's best interest that all tobacco industry players - manufacturers, wholesalers, retailers and most importantly consumers - be allowed to operate and compete freely within the cigarette retail universe

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Average Weekly Carton Volume Per store

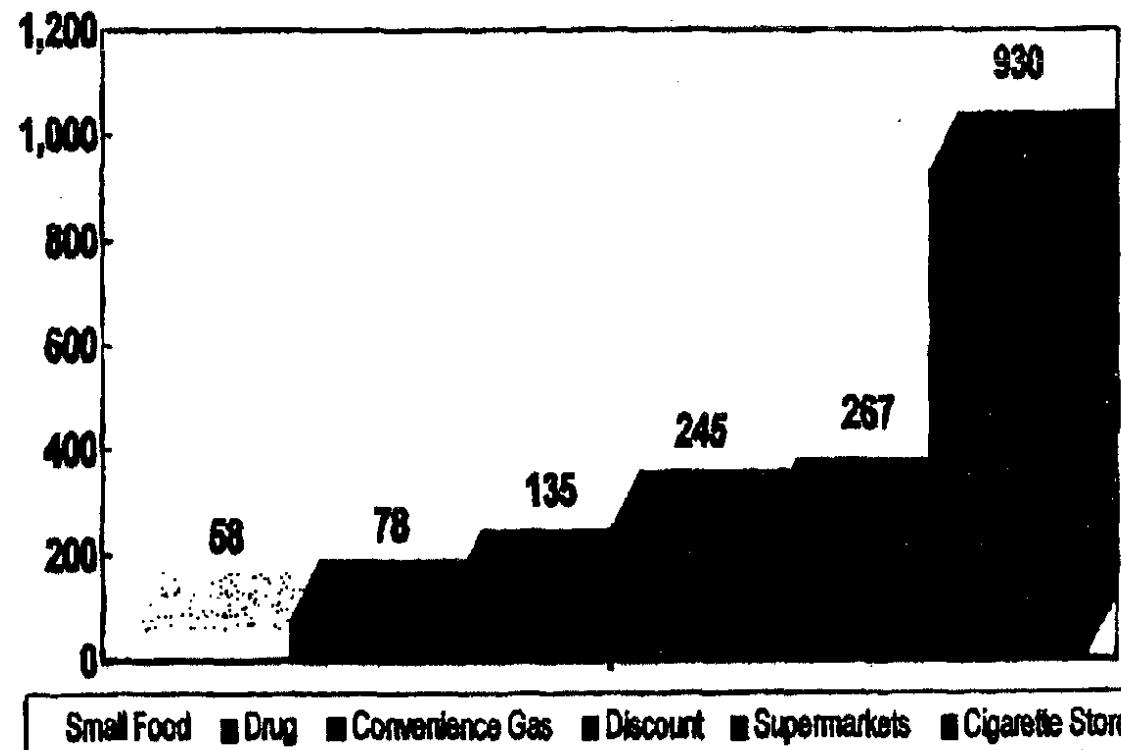
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LYNDA DAWSON

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Retail Store Universe By Trade Class



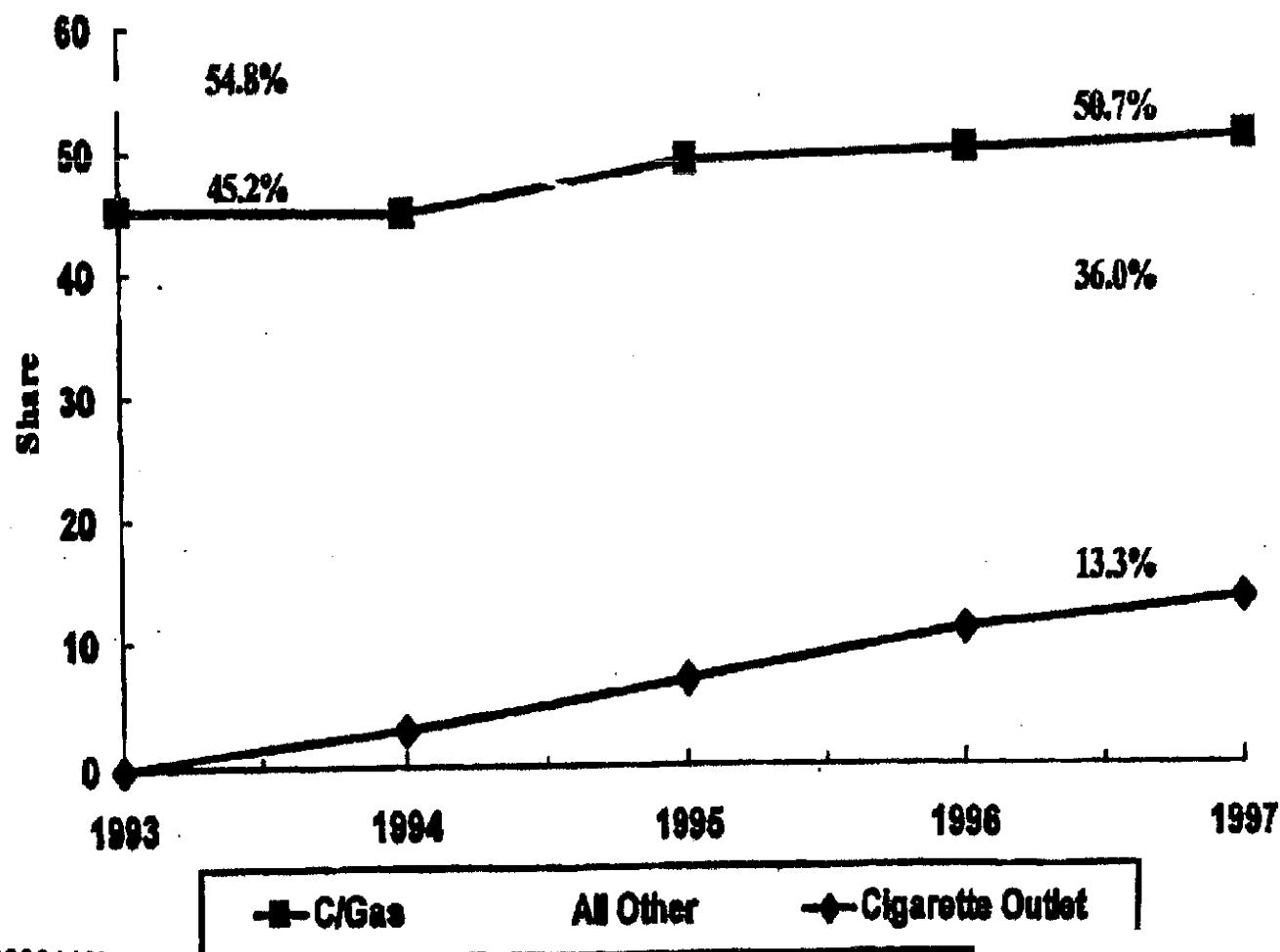
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© 1996 NACC Tobacco Marketing for C-Suite Observatory. Meyer & Associates 1996 study



Industry Volume Distribution Trends



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Communication Program

LEVEL C

Premium Communication

1. Provide between 20% - 29% of contiguous Premium Communication Space* at point of sale (to include header, product waterfall and promotional display areas) on a FlexMaster 2010 display competitor or store-owned fixture. In-store fixturing must be able to accommodate agreed plan-o-grams.
2. High profile indoor/outdoor communication devices total must be no less than B&W's share of Premium Communication Space, as determined by B&W.

Visible Merchandising

1. Allow clearly visible merchandising of remaining B&W products immediately beneath B&W's Premium Communication Space. Merchandising space must be at least equal to B&W's market share, or as agreed by B&W.
2. B&W product share of space on all in-store industry satellite fixtures must be at least equal to B&W's market share, or as agreed by B&W.

*See Premium Communication Space Definition attachment

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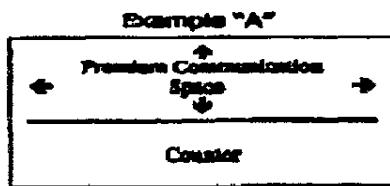
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PREMIUM COMMUNICATION SPACE DEFINITION (ATTACHMENT)

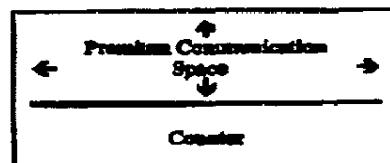
Premium Communication Space is defined as follows:

Half of fixture
above counter
level



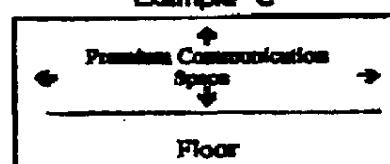
Visible portion
of fixture is
Premium
Communication
Space

Total fixture is
above counter
level



Entire fixture
is Premium
Communication
Space

Total fixture is
self-serve with
unobstructed view



Top 50% of fixture
is Premium
Communication
Space

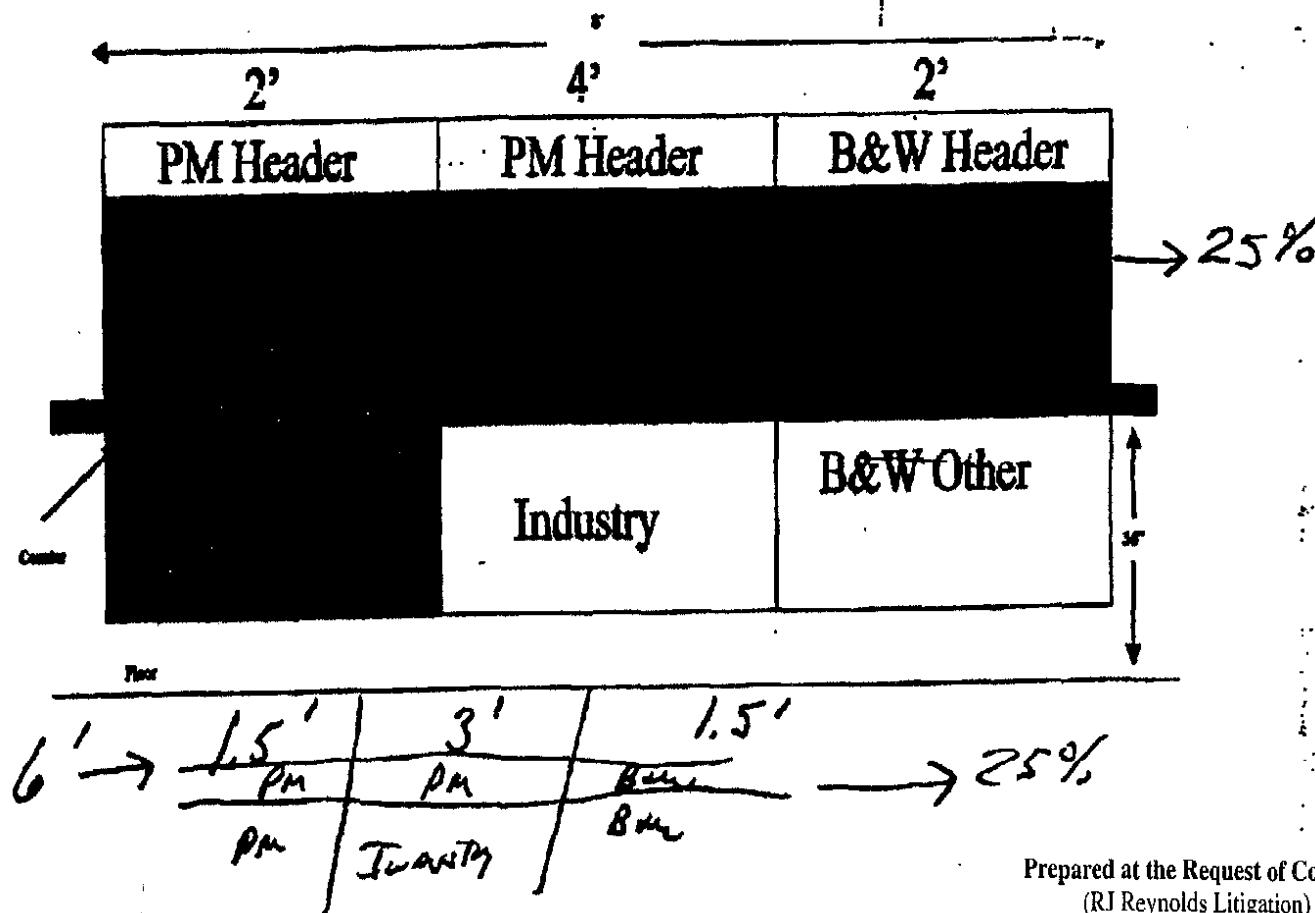
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Proposed Schematic-Fixtures on Floor Behind Counter Knight Bros.



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Knight Bro!



**BROWN & WILLIAMSON
TOBACCO**

Communication Program

Requirements

1. Available to Counter or Pack selling outlets.
2. Qualified self-service and non-self-serve outlets can participate.
3. Sell a minimum 100 (CPW) Total Industry.
4. Provide Premium Communication Space in accordance with respective program level (A through E) participation requirements.
5. Provide additional visible facings as agreed with B&W.
6. Distribution of B&W brands in all price tiers as determined by B&W.
7. Limit out-of-stocks for B&W products and ensure that sufficient product distribution is available to meet consumer demand as agreed by B&W.
8. Retailer agrees to price all B&W products fairly and competitively compared to competing brands (before applying manufacturer discounts and promotions).
Retailer's everyday price difference between B&W premium and value brands shall be at least an amount acceptable to B&W, and retailer shall not up-charge B&W products versus comparably priced competitive products (before applying manufacturer discounts and promotions). Subject to the above "minimum difference - maximum price" provisions, retailer is free to set its own prices on all products and to maintain lower prices than those resulting from B&W's minimum acceptable price differences.
9. Allow B&W to communicate retail price of B&W products to the consumer as determined by B&W.
10. Allow B&W to promote on a fair and equitable basis to the extent competition is permitted.
11. Participate in B&W's pre-back shaper program and all other promotional programs offered by B&W (including, but not limited to, displays, new brands, etc.), and ensure merchandising to be appropriate as determined by B&W.
12. Ensure B&W consumer promotions are sold to consumers only and not retailers.
13. Provide accurate B&W sales volume data (obtained from regular, authorized B&W distribution channels) as determined by your B&W representative.
14. Maintain "We Card" or equivalent signage.

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Financial Analysis

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- **RDA Payment** – \$217/store/month
- **Promotional Activity**
 - Kool- 52 wks @ \$3.00/carton
 - Plus .50/carton accrual for pulse programs.
 - GPC-52 wks @ \$4.00/carton
 - Plus .50/carton for pulse programs
 - Misty- 52 wks @ \$2.00/carton
- **Promotional Activity is ongoing with no restrictions to time frames**

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TOBACCO

Background

- The world has changed with regard to the marketing of tobacco products
 - Existing and pending legislation have already impacted and will continue to change the way cigarettes are sold.
 - This will change the way manufacturers, wholesalers and retailers approach the category

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Financial Analysis

- Annual Impact RDA's (Based on 7 stores)
 - $7 \times \$217 \times 12 \text{ months} = \$18,228.00$

- Annual Impact Promotion Dollars
 - Kool $\$4,200$
 - GPC $\$3,000$
 - Misty $\$1,600$
 - Accruals $\$1,000$

- Total Promotional $\$9800.00$

- Total Annual Support $\$28,028.00$

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Spend Rate Comparison

- \$4.54 Per Carton on all B&W Volume

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Contract Comparison

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BROWN &
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L3 (PM only)

329/mth x 7 stores =	\$2303.00
• Annual	\$27,636.00

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L2 (PM & B&W)

452/mth x 7 stores =	\$3164.00
• Annual	\$37,968.00

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ference **\$10,332.00 per year**

A's **13% of Yr Profit**

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Opportunity Cost

Profit Analysis

	FR	VFM	Avg
Unit Price	25.90	21.90	25.30
Cost	20.00	17.25	19.64
Profit	5.90	4.65	5.60
Up %	28%	27%	27.6%
Unit Sales	84%	16%	
Gross Profit	\$290,580.00		
Sales Volume	\$1,287,441.00		

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• CPL3

- \$329

• A

• CPL2

- \$45

• A

• Differ

• RDA

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• Cigarette

- Ctn Sellin
- Ctn Cost
- Gross Pr
- Mark Up
- Percent

- Annual G
- Annual S

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JAN 28 1999 14:54 PM REC'D BY SEC. 12 RELATION TO THE BUREAU OF ALCOHOL, TOBACCO AND TRADE

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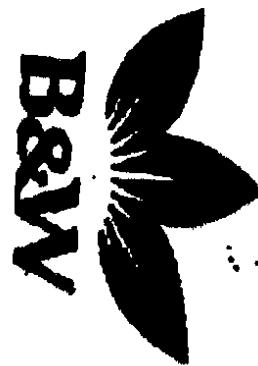
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FAX TRANSMITTAL

BROWN & WILLIAMSON TOBACCO CORPORATION

Customer RY
5320 Diamond Drive, Suite 130
Cary, NC 27511
Phone (919) 467-2300
Fax (919) 467-2309

AMERICAN LAW HOME AXCESS DIRECTOR@AOL.COM



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DATE: 1/20/99
TO: Upper Direct
FROM: Cap FAX: (919) 467-2309

MESSAGE: WHAT you ASKED FOR!!

Please Allow me to make a full presentation
BEFORE your trial of PM. I promise it will
be worth the wait.

TOTAL PAGES (including cover sheet): 3

If you have any problems reading this fax, please call us immediately. Thank you!

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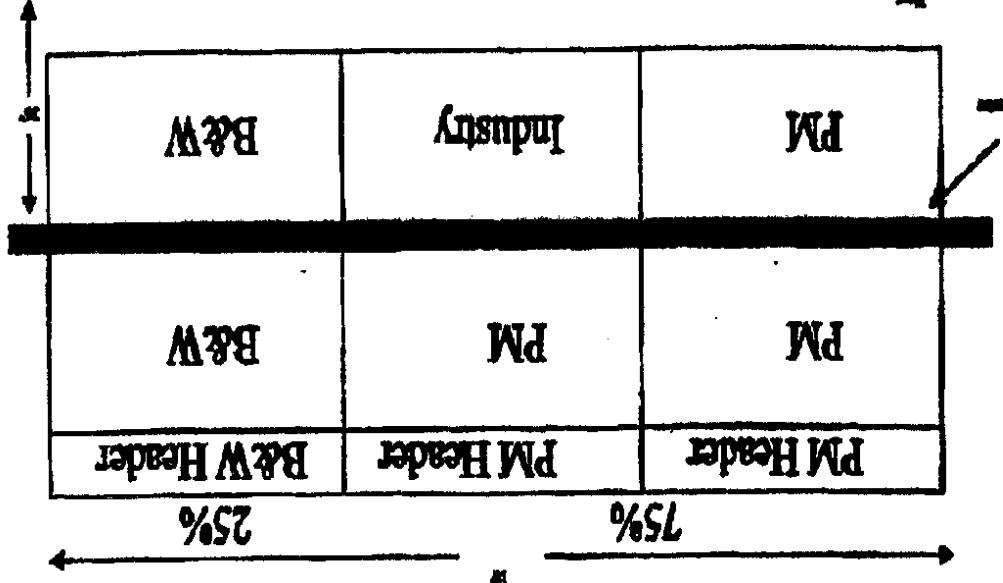
14-355 FR 54 SEC 12 APPLICANT NC 919 693 9375 TO LEGISLATOR

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Proposed Schematic-Fixtures on Floor Behind

Counter $\xrightarrow{\text{CPM}} \text{CP2}$ $\xrightarrow{\text{Catalysts}}$ $\left. \begin{array}{l} \text{Sulphur} \\ \xrightarrow{\text{Sulphur}} \text{Level C} \end{array} \right\}$

A horizontal number line with arrows at both ends, ranging from 25% to 75%. The number line is divided into four equal segments by three tick marks. The first segment is labeled '25%' at its right end, and the fourth segment is labeled '75%' at its left end. The segments are labeled '1' and '2' from left to right.



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